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Japan: Nakasone, the Summer Diet Session, and the November Election

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An Intelligence Assessment

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*EA 84-10126
June 1984*

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An Intelligence Assessment

This paper was prepared by [redacted]
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Key Judgments

*Information available
as of 15 June 1984
was used in this report.*

Prime Minister Nakasone's political actions and decisions in the coming months will be made with an eye to the Liberal Democratic Party (LDP) presidential election in November. Based on his record, he now appears likely to become the first Japanese prime minister in a decade to succeed himself:

- He continues to have the support of former Prime Minister Tanaka, the kingmaker whose backing has been essential throughout Nakasone's tenure.
- Infighting within the LDP remains under control, partly because of Nakasone's skill in co-opting or isolating major rivals.
- The conservative LDP-New Liberal Club coalition in the Diet is holding.
- Several foreign policy successes this year, including a well-publicized trip to China in March, the visit of Vice President Bush in May, and Nakasone's role at the Economic Summit in London, have added to his standing.

The summer Diet session will offer numerous opportunities for Nakasone to stumble in the crucial period before the election, however. He will have to deal with tough economic issues, including several controversial bills that probably will dominate a busy legislative agenda:

- Nakasone already has earned criticism for capitulating to some foreign demands to open Japan's markets, but, with a record current account surplus expected again this year, he will face continued pressure from Japan's foreign trading partners.
- A bill to reform the national health program by instituting participant fees in the health insurance system is highly contentious.
- Debate on some 30 other government reform bills probably will be long and sometimes bitter.

Although Nakasone is most vulnerable on foreign and domestic economic issues, he still has room to maneuver:

- He may be able to persuade at least the moderate opposition to go along with his legislative program by promising wage increases for public corporation employees.
- The Prime Minister also can threaten to dissolve the Diet if the opposition parties try to block his parliamentary agenda.

If Nakasone can use these tactics to win passage of some of the key bills in his program—without appearing to steamroll the opposition—he should be in good shape for November.

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Political Standing

The cease-fire in factional infighting within the LDP that followed the party's setback in the December national elections continues to hold, but maneuvering will pick up as the party presidential election in November approaches. Prime Minister Nakasone can maintain an edge over his rivals, however, as long as he retains the support of former Prime Minister Tanaka, who heads the largest faction in the party. Nakasone took a major step toward ensuring Tanaka's support in April, when he named senior Tanaka faction lieutenant Susumu Nikaido LDP vice president. Nakasone had hesitated to fill the post, partly because he expected strong opposition from the Fukuda and Komoto factions. Both could have charged that Nakasone had broken the promise he made late last year to reduce Tanaka's influence in the party. The Prime Minister's gamble that retaining Tanaka's good will was more important than avoiding criticism from Fukuda and Komoto seems to have paid off:

- The Komoto and Fukuda factions made only pro forma protests over the appointment.

[Redacted]

- In mid-May, Nikaido told journalists he would support Nakasone's reelection. His endorsement followed similar public statements from other faction leaders—deputy faction leader Masumi Esaki, LDP Executive Council Chairman Shin Kanemaru, and Tanaka himself. [Redacted]

Nakasone's success in co-opting, neutralizing, or isolating major contenders to succeed him also enhances his position. He named three potential rivals—Komoto, Abe, and Takeshita—to the Cabinet last December. At the same time, he denied another—Kiichi Miyazawa—the post of party secretary general, which Miyazawa badly needed to round out his credentials for the prime-ministership. [Redacted]

Japan: LDP Factional Strength

Faction	Diet Strength	Likely Candidate in LDP Presidential Election
Mainstream factions		
Tanaka	115	
Suzuki	77	Miyazawa
Nakasone	67	Nakasone
Antimainstream factions		
Fukuda	67	Abe
Komoto	36	Komoto
Nakagawa/Ishihara	6	
Nonaligned		
Independents	27	

[Redacted]

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Thus far, none of Nakasone's rivals has left the Cabinet, giving them little room to criticize him. Furthermore, unless he stumbles badly in the months ahead, they may not be able to mount a serious challenge to him this fall:

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Although Nakasone's rivals may enter the LDP presidential race to establish their credentials as future contenders, they may make carefully timed withdrawals to avoid a primary, which must be held if more than three candidates run.

Foreign Policy Achievements

Nakasone's high-profile, Western political style has served him well in the international arena, which should add to his scorecard as the election approaches. He took some criticism last year for failing to spend adequate time on domestic affairs, and consequently his foreign schedule has been lighter than in 1983. At the same time, however, he has managed to consolidate and build on some of the initiatives he took during his first year in office.

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Like his predecessors, Nakasone has concentrated first on the US-Japanese relationship. After an exchange of visits with President Reagan last year, he assumed final responsibility for following up on difficult bilateral economic issues.

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Positive Polls

Although public opinion polls do not make or break an LDP president, high ratings for Nakasone's performance as Prime Minister this year have deprived his opponents of an easy target for criticism. According to the Embassy, Nakasone's appropriately "sober" and "self-reflective" mood after the voters handed the LDP a setback in December has won him the respect of even some major critics within the party. Public opinion polls taken in March show support for the Nakasone government at an alltime high, and polls in April and May continue this strong trend. The polls indicate that the public is impressed with Nakasone's straightforward political style, and the press has praised his skillful performance during Diet debate. The coalition he set up in December with the small New Liberal Club in order to increase conservative strength in the Diet has held throughout this session, and polls suggest the public has given Nakasone's government good marks because of the continuing stability in the political situation under the LDP-NLC coalition.

Nakasone has prided himself on his close personal relationship with President Reagan. While recognizing that more must be done to mollify Washington on economic issues, he probably hopes that the Vice President's visit in early May is seen—in Japan at least—as a successful conclusion to the followup process and a demonstration of his ability to manage Japan's most important foreign relationship.

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One of Nakasone's major foreign policy goals has been to move Japan toward closer ties to the Western Alliance, and he used the London Economic Summit to pursue that objective. As he did at Williamsburg last year, he emphasized Japan's identification with the West. With the November election in mind, he no doubt also hopes to take some credit for summit country attention to Third World and disarmament issues.

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While looking to the West, Nakasone also has assigned a high priority to Japan's relations with Asia and has used his skill in personal diplomacy to strengthen ties to South Korea, China, and Southeast Asia. Well aware of the value the Japanese public attaches to good relations in the region, he has commented that he will make it his "election district." Shortly after he took office in late 1982, Nakasone traveled to South Korea, settling stalled aid negotiations that had strained relations for over a year, and he hopes to build on the subsequent improvement in ties by hosting a visit from President Chun this fall. In March Nakasone reciprocated the visit last year of Chinese Communist Party chief Hu Yaobang. The Prime Minister's trip to China received widespread and favorable media coverage in Japan, and Chinese diplomats in Tokyo have commented that Beijing viewed the visit as a success. Early in his tenure Nakasone called up Southeast Asian heads of government, and he has continued these contacts. The telephone calls, along with his ASEAN trip in May 1983, have allowed him to allay concern over the growth in Japanese defense spending and his reputation as a hawk. []

Nakasone expanded his Asian "electorate" in May when he traveled to India and Pakistan—the first visit by a Japanese prime minister in 23 years. He also had hoped to visit Australia and New Zealand in July, but the press of Diet business probably will prevent that trip. Domestic responsibilities forced him to cancel planned stops in France, West Germany, and Italy after the Summit. []

Economics: The Weak Card

Economic issues—where Nakasone always has been most vulnerable to criticism—offer the challenges that could block what might otherwise be a clear path to reelection. One article in a respected Japanese newspaper referred to Nakasone's "economic tone deafness," and polls indicate that those who disapprove of the Nakasone government are concerned about his economic policy. []

Nakasone already has earned some ill will over his management of international economic issues. His attempts to solve foreign trade problems have forced

concessions that have angered some important domestic interest groups, mainly in the agriculture sector. The current account surplus is running at record levels again this year, however. We expect it to reach \$25-30 billion compared with \$24 billion last fiscal year. Although Tokyo probably looks forward to a lull in US-Japanese trade friction as a result of the conclusion of a series of negotiations this spring, it is facing increasing complaints from EC members about Japan's surplus. The EC has criticized Japan's April trade package, and Nakasone's cancellation of his June European tour denied him an opportunity to try to smooth over remaining differences. []

Nakasone faces problems over the domestic economy as well, although the return to more rapid expansion this year after three years of slow growth could ease the pressure somewhat. Mainly on the strength of domestic demand, GNP growth should top 4 percent. The official growth target for the JFY 1984, which began 1 April, was set at 4.1 percent, and we agree with most forecasters that the Japanese will reach this goal. Indeed, most major private forecasters are even more optimistic than the government. []

Like his immediate predecessors, Nakasone has pursued a tight fiscal policy in an effort to contain persistent central government budget deficits, currently exceeding 5 percent of GNP. The Ministry of Finance has berated Nakasone for not going far enough to control the deficit, but the Prime Minister faces criticism from other quarters for not pushing the economy more vigorously. []

Nakasone's critics point out that Japan's recovery is lagging behind other industrialized nations. EPA Director General Komoto has called for more expansionary policies, including a further tax cut for business. According to a press report, his goal is a 5- to 6-percent growth rate. The Ministry of International Trade and Industry, too, favors a higher growth target. []

The opposition parties—with the Socialists in the lead—also have criticized Nakasone for not aiming for more rapid growth. They were particularly dissatisfied with this year's budget, which offers little

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stimulus and in fact shows the slowest growth in 30 years. The opposition parties called for lower defense spending, increased expenditures for social welfare programs, and a larger tax cut. Their stalling tactics delayed budget passage, forcing brief implementation of a provisional budget for the first time in seven years, and postponement of debate on other major economic legislation. In order to deal with the backlog of pending bills, the LDP has pushed through an unusually long, 77-day extension of the Diet session, which was to have ended on 23 May. [REDACTED]

Dangerous Summer Diet Session

A strong record of legislative successes will be especially important to Nakasone as he prepares for the November election. Having suffered a small defeat to opposition maneuvering in the budget hearings this spring, he seems genuinely concerned whether other important legislation can be passed, as demonstrated by his decision to cancel several foreign trips this summer. The sharpest debate probably will be over a bill to reform the national health system. [REDACTED]

The health system bill would require national health care recipients to shoulder 10 percent of costs beginning 1 July and 20 percent in 1985. The Finance Ministry drafted the current budget on the assumption that the bill would be passed by 1 July. According to Ministry estimates, if it fails to pass this summer, the government could face a revenue shortfall in JFY 1984 of up to \$1.9 billion. Extensive revision of the budget would be necessary, clearly a blow to Nakasone. [REDACTED]

As a result, passage of the bill will be the major test this summer of Nakasone's political ability. All of the opposition parties oppose the revision, as do the powerful medical, dental, and pharmacists associations. An opposition walkout has already forced the LDP to scrap a plan to speed up debate on the bill.

[REDACTED] the Komoto and Fukuda factions in the LDP are lukewarm about the bill [REDACTED]

Other bills, including 30 related to administrative reform and aimed at cutting government spending and streamlining the bureaucracy, also will threaten Nakasone's position this summer. The secretary general of the Japan Socialist Party has announced that his party will lead the opposition against three bills related to the return of Nippon Telegraph and Telephone to the private sector. Some labor groups oppose the proposed breakup of Japan National Railways, and, as the possible effects on local service become clearer, other opposition is likely. Also part of administrative reform will be cuts in government funding for a long list of government organizations, including several specialized public finance corporations for areas such as agriculture, forestry and fisheries, and for small business. All have their constituencies that will be disturbed by the cuts. Nakasone also will press forward with his commitment to educational reform by calling for approval of a bill to create an education affairs deliberation council. He could overestimate the pace at which the consensus will allow him to move on this intensely emotional subject, however, and run into trouble with this bill as well. [REDACTED]

Despite the Diet extension to 8 August, the time available to handle these contentious issues is short. Nakasone may extend the session again or carry over some bills to an extraordinary session in the fall, but he clearly wants to avoid difficult Diet debate immediately before the November election. [REDACTED]

Forum for Criticism

Beyond the controversy raised by the bills under consideration, the fact of the Diet's remaining in session could endanger Nakasone's position by providing an open forum for criticism of government policy. If economic growth should begin to slow, for example, Nakasone could be faced with noisy criticism of his economic management. The weakest area of the domestic economy this year has been consumer demand, which accounts for nearly half of GNP. Continued modest gains in real wages and salaries will

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keep the rate of growth of private consumption expenditures slow. Because of the deficit, Nakasone would find it nearly impossible to stimulate the economy using fiscal policy measures, but such LDP rivals as EPA Director General Komoto would be sure to use the opportunity to attack Nakasone for failing to pursue expansionary policies. [REDACTED]

The extension of the Diet session also will complicate work on the budget for 1985, posing additional problems for Nakasone this summer. Spending ceilings for the ministries are usually announced in June. During the spring, Finance Ministry bureaucrats had decided to postpone the announcement until late July, assuming the Diet session would have concluded by then. The Ministry hoped to avoid Diet opposition to a proposed third year of cuts in social programs and public works and moderate increases in defense spending. Now that the session has been extended into early August, the government must decide whether to go ahead with the announcement and face criticism from the floor of the proposed ceilings. The alternative—delaying again—would upset the entire budget cycle. [REDACTED]

The Defense Target

Defense policy also will be a probable target for the opposition during the Diet session. Nakasone has not stressed defense as much this year as he did during his first year in office. For example, the Embassy reports that during the budget hearings he made a visible effort to avoid taking controversial personal positions on defense. [REDACTED]

Defense issues have traditionally provided the opposition parties a major platform for taking the government and the LDP to task, however, and, despite Nakasone's low-key approach this year, the opposition has several issues it could exploit this summer. Impending US deployment of Tomahawk missiles on ships in the Pacific Fleet is one. They will attack the government if, as expected, defense spending breaks the ceiling of 1-percent of GNP, in place since 1976. The contrast between sharp cuts in social services and increases in defense will provide an attractive rallying point. [REDACTED]

Throughout the spring, Nakasone and other senior LDP leaders used public statements to set the stage for a breach in the 1-percent limit, and an LDP committee is now meeting to discuss revising the ceiling. Editorials in several prominent newspapers also have called for a break in the spending ceiling. Despite this extensive preparation, the opposition probably will try to use the issue to bring Diet deliberation on key bills to a halt. The change could come in midsummer, if the Finance Ministry sets a JFY 1985 budget limit on the Japan Defense Agency above the 1-percent cap. The change also could come in August, when the National Personnel Authority is expected to make decisions on wage hikes for government employees that will raise defense spending for this year beyond the ceiling. [REDACTED]

Some Room for Maneuver

Nakasone does have some factors in his favor as he faces the challenges ahead. Both he and other LDP leaders have publicly indicated a willingness to compromise on several issues during the Diet session, which may allow them to strike a deal with the moderate opposition to win passage of key legislation. According to Embassy sources, Nakasone's main bargaining chips are wage increases for public corporation employees and a proposal to create a suprapartisan political ethics committee in each house. This should help quiet those who have attacked money politics in the LDP in the wake of the Lockheed scandal and Tanaka's conviction in the case last fall. [REDACTED]

[REDACTED] The opposition is unlikely to want to pay for another campaign so soon after December—and to risk losing the gains made then. In addition, contacts in the opposition party camp have told the Embassy they recognize the health

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program must be reformed. As a result, the opposition may choose to embarrass Nakasone, as they did with the budget, but not to block completely this legislation. [redacted]

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Tanaka's support should also help Nakasone. [redacted]

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[redacted] Finally, with Nikaido as party vice president, Nakasone has the aid of a widely respected politician known for his ability to work well with leaders of both the LDP and opposition parties in managing Diet affairs—the major item on Nakasone's agenda over the next several months. [redacted]

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